NASA Procedural Requirements

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Subject: Liabilities

Responsible Office: Office of the Chief Financial Officer

Chapter 2 Contingent Liabilities Generally

2.1 Contingency

2.1.1 This chapter describes the accounting procedure for recognizing and disclosing NASA's contingent liabilities.

2.1.2 A contingency is an existing condition, situation, or set of circumstances involving uncertainty as to possible gain or loss to an entity. The uncertainty will ultimately be resolved when one or more future events occur or fail to occur.

2.1.3 Resolution of the uncertainty may confirm a gain (reduction of liability) or a loss (increase in liability).

2.1.4 Legal action, with a potential negative outcome for NASA, can create a contingent liability that will be recognized in the Agency's financial statements.

2.2 Recognition of a Contingent Liability

2.2.1 A contingent liability should be recognized and recorded in NASA's general ledger when four conditions are met. These conditions are:

a. A past event or exchange transaction has occurred that gives rise to a liability.

b. A future outflow or other sacrifice of resources is probable.

c. The future outflow of resources is measurable.

d. The amount of the future outflow of resources is material within the context of the financial statements for the applicable NASA account.

2.2.2 Liability amounts classified as probable, measurable and material are recognized in NASA's integrated accounting systems and reported on the consolidated balance sheet.

2.3 Classification of Probability

2.3.1 A future outflow of resources is "Probable" if the future confirming event or events are more likely than not to occur, with the exception of pending or threatened litigation and unasserted claims. For pending or threatened litigation and unasserted claims, the future outflow of resources is "Probable" if the future confirming event or events are likely to occur. Amounts classified as probable, but not measureable, are disclosed in the footnotes to the financial statements. Disclosure should include the nature of the contingency and an estimate of the possible liability, an estimate of the range of the possible liability, or a statement that such an estimate cannot be made.

2.3.2 A future outflow of resources is "Reasonably Possible" if the likelihood of the future confirming event or events is less than "Probable" but more than "Remote." Amounts classified as reasonably possible are disclosed in the footnotes to the financial statements under the same disclosure standard as in Section 2.3.1 of this NPR.

2.3.3 A future outflow of resources is "Remote" if the likelihood of the future confirming event or events is slight. Amounts classified as remote are not included in the financial reports.

2.4 Measurability

2.4.1 Liability is measurable if it has a relevant attribute that can be quantified in monetary units with sufficient reliability to be reasonably estimable.

2.4.2 Liabilities reported in the financial report are measured by different attributes specified by various accounting standards (e.g., fair market value, current cost, present value, and historical cost).

2.4.3 The estimated liability may be a specific amount or a range of amounts. If some amount within the range is a better estimate than any other amount within the range, that amount is recognized. If no amount within the range is a better estimate than any other amount, the minimum amount in the range is recognized (posted to the general ledger) and the range and a description of the contingency should be disclosed in the notes to the financial statements.

2.5 Materiality

2.5.1 The recognition and disclosure of liability cost estimates in financial statements is subject to materiality criterion. SFFAS No. 1 states, "Materiality depends on the degree to which omitting or misstating information about an item makes it probable that the judgment of a reasonable person relying on the information would have been changed or influenced by the omission or the misstatement."

2.5.2 Materiality has both quantitative and qualitative aspects. Even though quantitatively immaterial, certain types of misstatements could have a material impact and warrant disclosure in the financial statements for qualitative reasons.

2.5.3 The determination of materiality requires the application of professional judgment. The determination of materiality for any liability estimate will be made based on the specific facts of the case. Detailed records will be maintained to support all materiality decisions.

| TOC | Preface | Chapter1 | Chapter2 | Chapter3 | Chapter4 | Chapter5 | Chapter6 | Chapter7 | Chapter8 | Chapter9 | AppendixA | AppendixB | AppendixC | ALL |

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